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A continuing major challenge for every industrial nation is the reconciling of high employment with price stability. The United States is entering its eighth year of economic expansion, due in part to the "stimulus" economic policies of the federal government. Employment levels, while not full, are aimed at 3.75 percent unemployment for 1968, so that we can conserve the possibilities for greater employment later and not jeopardize the opportunity for maintaining expansion. Accelerating inflation is not acceptable and policy makers will feel pressure to hold the economy down and to adopt the main objective of stopping inflation. Consumer's savings have kept our economy from going through the roof and the President has appealed for voluntary restraint with a three-pronged program including stabilizing the growth of demand, voluntary cooperation, and an attack on structural impediments to efficiency and cost reduction. The latter includes the establishment of a Cabinet Committee on Price Stability which will deal with inflationary bias built into our economy. If wage-price spiral disturbances can be lessened and continued manpower training can help smooth the path our program should work. The text of a question-answer session is included. (EM)

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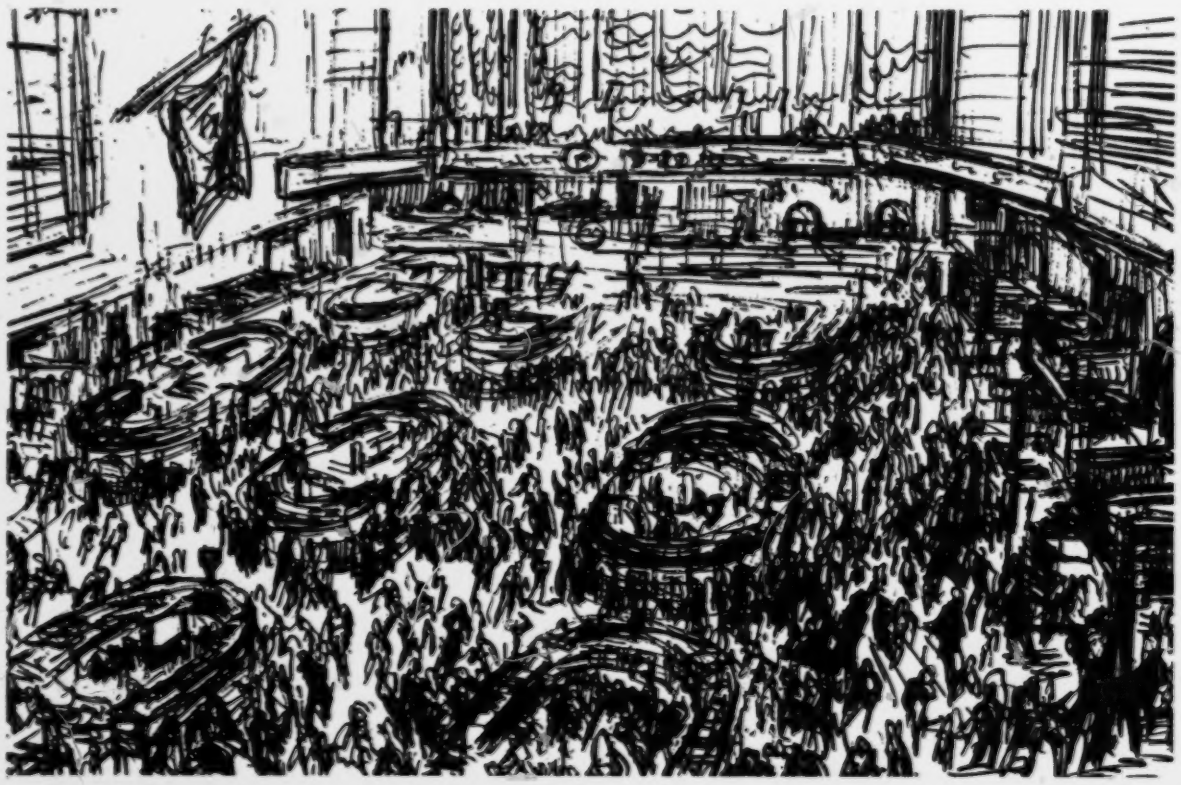
# SEMINAR ON MANPOWER POLICY AND PROGRAM



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## Economic Issues for the Future

by ARTHUR M. OKUN

U.S. DEPARTMENT OF LABOR MANPOWER ADMINISTRATION

- This report is one in a series of proceedings of Seminars on Manpower Policy and Program sponsored by the Manpower Administration. It presents a condensed transcript of the seminar held in Washington, D.C., February 15, 1968.
- The purpose of the seminars is to provide a platform for guest speakers and for members of the Department of Labor and other agencies concerned with manpower problems to discuss issues arising from the development of an active manpower policy.
- Expressions of opinion by the speaker, the moderator, and those participating from the audience are not to be construed as official opinions of the U.S. Government or the Department of Labor.

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# Economic Issues for the Future

2

by ARTHUR M. OKUN

U.S. DEPARTMENT OF LABOR
Willard Wirtz, Secretary
3 MANPOWER ADMINISTRATION (DOL),
Stanley H. Ruttenberg, Manpower Administrator
Washington, D.C.

# OPENING REMARKS

Chairman—Stanley H. Ruttenberg,
Assistant Secretary and Manpower Administrator
U.S. Department of Labor

SECRETARY RUTTENBERG: Ladies and gentlemen. Welcome to this, the 38th in a series of seminars on manpower programs and manpower policies.

We are honored and delighted to have with us today a gentleman who speaks authoritatively on the national economic policies and programs of this Administration.

I must say Robert Behlow, who arranged this seminar, was first in touch with Dr. Okun on the 16th of October, 4 months ago. I am sure Mr. Behlow had the foresight to know then that Gardner Ackley was going to be appointed Ambassador to Italy and that Arthur Okun not only would be appointed to succeed him, but would, on the 15th day of February, just about 1 hour ago, be sworn in as Chairman of the Council of Economic Advisers.

As I am sure you all know Arthur Okun and his background, I won't discuss that. I just want to present him to you for an informal, off-the-record evaluation of economic policies and programs. I am sure he is going to raise issues and problems for you. There will be a question and answer period when he finishes.

Now Arthur Okun is going to talk to us about that broad subject "Economic Issues for the Future."

Dr. Okun.

# Economic Issues for the Future

An Address by Dr. Arthur M. Okun

DR. OKUN: I like to think that Robert Behlow was willing to have me, even as a member of the Council. I certainly did not visualize, in accepting this invitation, that this would be my first official, semiofficial, or even unofficial, act as Chairman.

As Stanley Ruttenberg says, that designation is less than an hour old.

One thing that the events of recent weeks have entailed is that I have had even less time than in the past to think about giving speeches. However, Mr. Ruttenberg assured me that my off-the-cuff remarks would be acceptable, and I hope they are.

As we see 1968, the main issue for this year—and the issue for 1969 and 1970 and many years to come—is reconciling high employment with price stability.

This has been a major challenge for every industrial nation. Nobody has really solved the problem. It is a problem that is plaguing us now. It is a problem that could jeopardize the prosperity which has been of such great benefit to us.

I don't need to recite for this group the great gains of 7 years of continuous economic expansion. I sometimes think the main duty of the Chairman of the Council of Economic Advisers is to keep straight the month of expansion we are in. It is now the 84th; we are completing the seventh year and are ready to go into the eighth.

We don't think it was a coincidence that we have avoided recessions for 7 years. Our recent record stands in sharp contrast with the long-term historical performance of the United States, which has been punctuated by recessions about once every 3½ years. Expansions have lasted about 30 months on the average, and recessions a little bit more than a year. The previous record for duration

of an expansion was 80 months; that expansion was associated with World War II. The second-prize winner prior to the present expansion was the 50 months of incomplete recovery from the great depression; that expansion went on from 1933 to 1937.

This is a real recordbreaker in strength and duration. And there are reasons for it.

The American economy is dynamic and has remarkable institutions. It has remarkable capacities for adapting to change, but it has been that way for a long time, and nevertheless it was subject to periodic recessions.

The economic policies that the Government has pursued in the past 7 years have been an essential component of the recordbreaking prosperity. For much of that period, into 1965, the key word in Federal fiscal policy was "stimulus." The objective was to get the economy moving, to make sure that the budget wasn't a drag, and to make sure that there was the purchasing power—the aggregate demand—to bring the economy up toward full employment. We started at a great distance from full employment or from any measure of the economy's potential.

### *We Have Nearly Full Employment*

There is some sensitivity about just how we should use the term "full employment." You will forgive me if I seem to use it loosely. To be sure, our employment isn't full, even today. But by standards of essential balance between supplies and demands in job markets, it is fair to say that we can't speak of deficiencies in the demand for labor. In that sense, despite significant and troublesome pockets of unemployment, we do have an essentially fully utilized economy. We are making essentially full use of our resources.

This was achieved, in part, by the application of a fiscal stimulus. It was supported by an unusually expansionary accommodating monetary policy, which kept interest rates unusually stable during a period of tremendous growth in credit demands and flows of funds. That was the work of the "new economics"—a label that we never sought or made up ourselves, but which was applied to the policies pursued during this period. The hallmark of the new economics was the big tax cut of 1964, which did a remarkable job of invigor-

ating private demand and which showed up dramatically in the Nation's shops and markets, in consumer spending, and in investment.

But times changed quite significantly. Partly, they changed because the economy began to catch up with its potential after the tax cut, and we reached a point at which there were risks on both sides —from going too fast as well as from going too slowly. Partly, they changed quite apart from the success of deliberate fiscal and monetary policies in achieving stimulus, because we had the unwanted and unwelcome stimulus that came from the enlargement of our defense requirements in 1965. Ever since then, we have been in a different policy environment, in which "stimulus" cannot be the key word. There have been periods when we were going too fast, periods of consolidation when we were leveling off after going too fast, and periods when, once again, we faced the threat of going too fast. The threat to prosperity in 1968, we are convinced, is that of exceeding safe speed, not that of running out of gas.

One has to ask how fast the economy ought to go. There is no doubt that at any time we can create more jobs and more production with a more stimulative set of policies. We can always push the economy harder; we can get more out of it; we can put more people to work; we can get more goods and services.

So there is a strong temptation to say, "Damn the torpedoes and full speed ahead!" But that temptation carries with it great risks. We do have to abide by some safe driving—or, to avoid mixing my metaphors, safe sailing—rules. We cannot speed recklessly ahead, even though, in making that decision, we are sacrificing some job opportunities and some output in the short run.

The *Economic Report of the President* sets forth as an expectation, and implicitly as a target, for 1968 an unemployment rate of about 3.75 percent. That is higher than the rate we have now. It looks like a very conservative target—one that might be called "chicken" or one that might be called an undue retreat from ambitious goals. It may be regarded as an undue compromise with financial values as against human values. This is one way the conflict is sometimes stated, but I do not think that statement is accurate or meaningful. As we see it, the issue is not sacrificing employment for other objectives. Rather the real question is whether some sacrifice

of potential employment now is a way of conserving the possibilities for a great deal of employment later. For a policy that stimulates overexpansion jeopardizes the opportunity for maintaining expansion and extending the period of unemployment below 4 percent.

### *Consumers Protest Rising Prices*

The United States will not accept accelerating inflation. The housewife protests when food prices and prices of children's clothing and of the everyday articles of life start moving up rapidly. There are good reasons why the American consuming public feels that way. In part, of course, it doesn't see the two-sidedness of incomes and prices in the economy. The housewife whose husband comes home with an 8-percent raise and then finds that consumer prices are up 4 percent, doesn't say, "Well, it's a great world; we have a 4-percent real income gain. My husband's 8-percent raise reflects the fact that the economy is booming, and so let's take the inflation and not worry too much about it." What she says is, "My husband earned an 8-percent raise, and inflation is stealing half of it from us." Usually she adds, "And it's the Government in Washington that is mismanaging affairs and creating that situation."

We all want the impossible—an 8-percent raise without inflation. And, indeed, the raises that come in a period of inflation don't compensate equally, evenly, and equitably for the cost of rising prices. It is clear that public opinion—the democratic process—is registering strong opposition to rising prices. And I am concerned over what would happen if this should continue—if inflation should accelerate. I don't think there is a particular point at which the economy explodes—or even at which the housewife explodes. But the more rapidly, the more persistently, and the longer inflation goes on, the greater the pressures on the policymakers will be to hold the economy down and to adopt the main objective of stopping inflation rather than continuing the growth of prosperity. By taking precautions against conditions that will necessitate a shift of emphasis entirely to the price stability goal, we have our best chance of maintaining prosperity and expanding growth over the long run.

Public opinion does see other solutions to this problem at times. I find it discouraging that the opinion polls register 46 percent of the American public finding direct controls on wages and prices an acceptable way of dealing with inflation, while less than half that percentage regard a tax increase as an acceptable way of dealing with inflation. I think any attraction that direct controls may have would vanish once they were in force. There is no question that the morass of government administrative machinery required to implement direct controls on wages and prices is a major disturbance and annoyance to every private enterprise, every labor union, and every other person who has a price or a wage decision to make. There is no question that ceilings on prices often pull the rug from under quality. You find good merchandise vanishing from the shelves and there is quality deterioration.

Controls may have a necessary role in a period of all-out war. But we are far from anything that could be called all-out war today, and, in anything less, we ought to rely on the market mechanisms --on existing free institutions, and not on government controls. Anyone who has lived under controls and rationing will surely share the Administration's view that they are inequitable and inefficient—administrative nightmares that should be avoided if at all possible.

In relying on our free institutions, we do point toward the need for voluntary restraints. But we cannot expect voluntary cooperation when demand is excessive. If the market is pushing wages, costs, and prices up in the areas where there is no market power, you can't expect voluntary restraint in the areas where there is discretionary market power.

We have had a disturbing rate of price increases in the past 2½ years. I submit that the chief explanation for the speedup of wage and price increases has been the growth of demand—the fact that we moved too rapidly in late 1965 and early 1966 and reached a situation of imbalance in which we were still straining capacity in many of our manufacturing industries through most of 1966 and were pressing too hard on our resource capabilities. This touched off a set of cost and price increases that created a spiral situation, with wages chasing prices and prices chasing wages.

Questions are often raised about how a little change in demand —the kind of difference that the President's tax proposal would

make—can affect the price level to any significant degree. It is argued that much of the demand that the tax would change is in services, much of it is in food, much of it is in areas which do not seem to be directly or immediately influenced. Why should it make such a difference? It has made that difference though. Without relying on the pace of demand as an explanatory factor, I don't know how you account for the major spurt in service prices that we have experienced in the last 2 years. They were rising in 1961 to 1965, but they have risen at more than double that rate since. In 1967 we had a very slow and unsatisfactory first half year in terms of production, employment, and income gains, and we had a speedup in the second half. You could see the difference—the difference that a little extra demand made in the price performance of the economy between the first and the second half of 1967.

### *The Economy Speeded up During 1967*

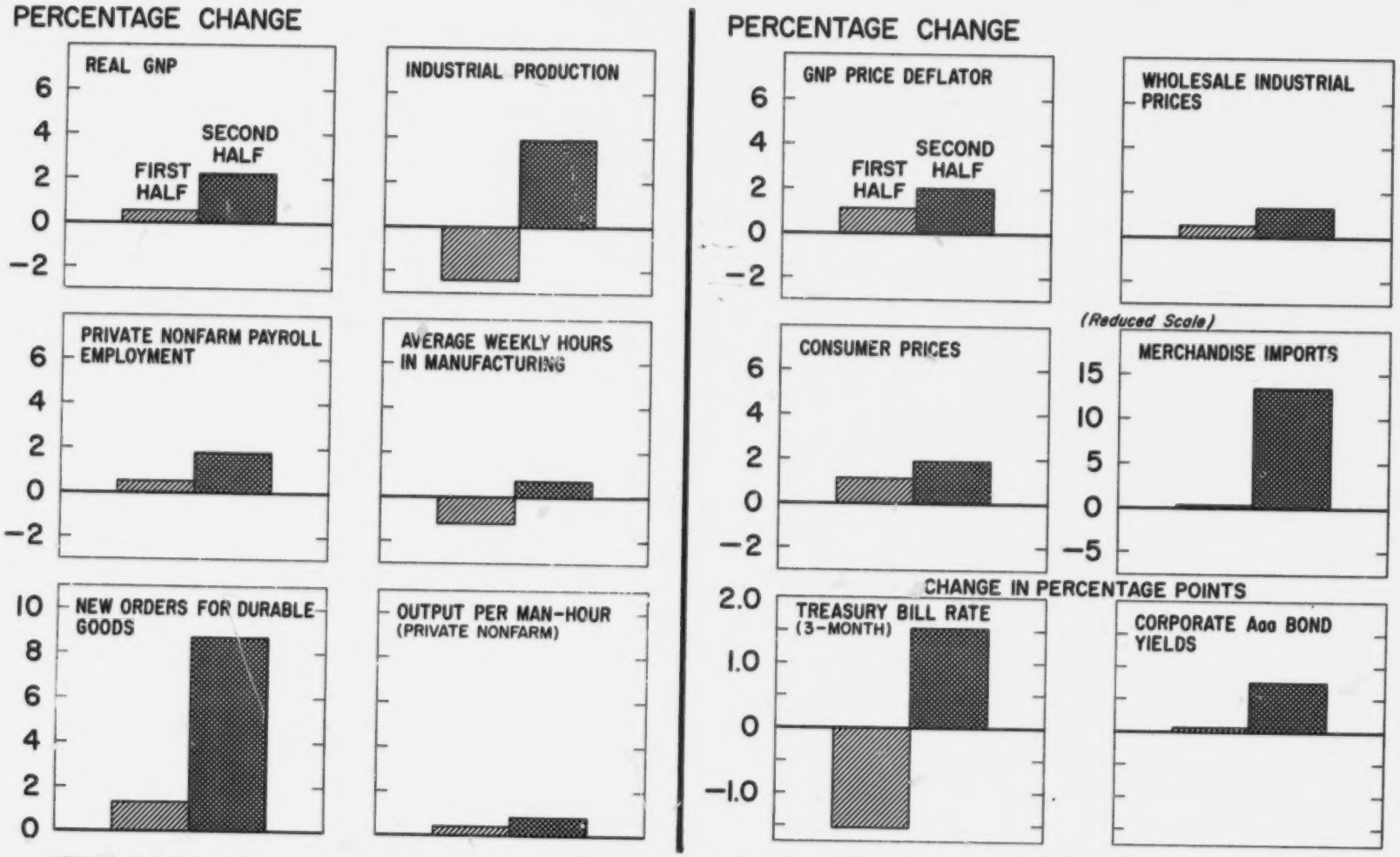
I have brought along a favorite chart of ours. (See chart on page 9.) The left-hand side of the chart shows all the good news we generated in the second half of 1967, as opposed to the unsatisfactory news of the first half. Real gross national product grew a little over 2 percent—an annual rate of about 4.5 percent—in the second half, but less than 1 percent in the first half. Industrial production actually declined from December 1966 to June 1967; then from June to December it jumped up and reached a new high by December. A very small gain occurred in private, nonfarm payroll employment in the first half of the year; then a major jump, 2 percent, was registered in the second half. Weekly hours declined in the first half and rebounded in the second half. A small rise in new orders for durable goods occurred between December and June and a very large rise from June to December.

Productivity didn't do well all year long, but it did better from the second to the fourth quarter of 1966 than from the fourth quarter of 1966 to the second quarter of 1967.

That is all the good news of the second half.

On the right-hand side of the chart, you find some bad news that went along with the good news in the second half of the year. The price deflator for GNP, which had been running at a 3-percent an-

# CHANGES in SELECTED ECONOMIC INDICATORS DURING the FIRST and SECOND HALVES of 1967




NOTE: BASED ON SEASONALLY ADJUSTED DATA FOR ALL SERIES EXCEPT WHOLESALE AND CONSUMER PRICES, TREASURY BILL RATE, AND BOND YIELDS.
SOURCES: COMMERCE, LABOR, TREASURY, FEDERAL RESERVE, AND MOODY'S.

nual rate in 1966, slowed down to a rate of a little over 2 percent in the first half of 1967. In the second half, however, it spurted to an annual rate of increase of nearly 4 percent. Consumer prices told almost exactly the same story—an annual rate increase of a little over 2 percent in the first half and nearly 4 percent in the second half. Wholesale prices showed a minuscule increase in the first half and a jump up in the second half. Imports were level in the first half; a jump then occurred between June and December of 1967, giving us, for the fourth quarter of 1967, the smallest trade surplus that we have had in 7 years.

In financial markets, interest rates took a welcome decline in the first half of the year. The Treasury bill rate was down 1.5 percentage points. By December, it was back to where it had started the year—up 1.5 percentage points. Corporate triple A bond yields were already rising in the spring, and hence by midyear were about where they had been at the beginning of the year. In the second half, they took a big jump.

The left-hand side and the right-hand side of this chart have something to do with each other. Their relationship is not just happenstance. Surely, other factors influenced prices, imports, and interest rates. But the main factor, I submit, was that the economy was moving very rapidly in the second half of last year, as contrasted with a very slow and sluggish growth in the first half. Indeed, the growth of GNP in the second half of last year tends to understate the true advance of the economy. A 4.5-percent rate of real growth doesn't look very high. It is not far above a sustainable rate. But this was held down significantly by the automobile and other major strikes that put a dent in our fourth quarter GNP by an amount that we estimate to be $4 or $5 billion. Adjusting for that, the real growth rate was more like 5.5 than 4.5 percent, and 5.5 percent clearly is too fast. So is the 8-percent rate of growth of industrial production that you see recorded on the chart for the second half of 1967. And so is the rate of increase of nonfarm private employment. We couldn't sustain that without creating real strains on our job market in short order.

We are not by any means recommending a return to the situation of the first half of 1967. We don't want a flat pause in the economy, and I don't think we are going to have it. There is no evi-

dence to suggest that that would be the consequence of the kind of fiscal policy that the President is recommending.

I say this with due regard to all the uncertainties of forecasting. I have been forecasting for a long time—long enough to make more mistakes than most people. Because I do it frequently, I make mistakes often, and sometimes I make some beauties.

I can't guarantee what the GNP will be for this year, with or without a tax increase, with or without a permissive monetary policy. There is a professional consensus on the strength of the first half of the year and a good deal of concern about what happens after midyear. I submit that most of that concern seems to be the usual forecasting myopia. There has been a long history in the United States of looking ahead and saying, "Where is that next dollar of demand going to come from?" For the next month or 3 or 6 months you can see it, and after that you can't. But that doesn't mean it is not going to be there. It seems to me the question is: What is going to make things stop rising? When there isn't a restrictive fiscal or monetary policy, private demand keeps going upward at a reasonable pace most of the time, although there have been some aberrations in one direction or another.

### *Consumer Savings Are High*

The big surprise recently has been the consumer's savings. The consumer has saved an unusual fraction of his income, a much higher proportion than we expected. It is fun to spin hypotheses about what may account for the consumer saving rate. You hear the war psychology argument, the liquidity rebuilding argument, and the point that although a lot of income last year took the form of Medicare benefits that may not have added much to consumer spending, such income avoided the need for reducing savings. Another hypothesis involves the fact that much of the employment increase last year came in the form of secondary workers—women entering the labor force. Maybe they didn't consume as much out of their incomes as out of breadwinners' incomes. Yet, everything I know suggests that a woman's income is bound to be spent.

Whatever the reason, this remarkable display of consumer saving

has kept the economy from going through the roof up to now. But I don't think we can count on its continuing to happen.

In reality, it seems to me the only way that one can make sense out of a bearish forecast, with sluggish growth for the bulk of this year, is through the possibility of the saving rate continuing to rise to 8 percent and 9 percent from its presently already very high 7-percent level. I can't rule that out. It may happen. I don't know how it rose from 6 to 7, so I can't tell you for sure that it is not going to go to 8. But you can't make policy on that assumption. Anybody who makes that assumption is making a forecast, just as much as I am making one when I tell you that we do need some kind of restraining policy to keep the economy from going too fast.

We had to make some judgment on the consumer sector. The conclusion we reached pegged the saving rate just a shade below where it was in 1967. That looks like a reasonable estimate to me. There is no evidence that the consumer, having spent so cautiously up to now, is suddenly going to plunge back into the market; and I am not ready to make a new estimate on the basis of a good January preliminary retail sales estimate.

Our projection of consumer demand in the *Economic Report* is not looking for pie in the sky; it is not particularly bullish. In addition, as we see it, there is strength in homebuilding. Residential construction demand is there; people are making clear that they are willing to pay high interest rates on mortgages providing they can get the funds. It seems to us that the only real threat to homebuilding for this year is the threat that the funds will not be there—that we could have a resumption of the famine that plagued us in 1966.

Some industries, selectively, are pointing toward significant increases. And this makes sense. Public utilities seem to need capacity, and it is no surprise that they are stepping up their capital budgets substantially. Likewise, airlines and nonelectrical machinery—which, by our obsolete industrial classification system, includes computers—are areas where an increase in investment demand is scheduled.

Most areas show very little change in their capital budgets. Where industries don't need capacity, they are putting more emphasis on modernization and replacement of older capacities, rather than on expansion.

What you have is a pattern with very few minuses and several significant pluses, and this adds up to a moderate, reasonable plus in investment.

In general, what makes it hard for some people to see the danger and the threat of going too fast is the fact that you can't identify this as an investment boom or a consumer boom or a defense boom. It isn't any one of them. It is just a well-balanced excess. It adds up to too much because there is something of everything, and you have no real soft spots. It adds up to a prospect of an excessive pace of advance that, if unchecked, will lead surely to accelerating price increases—to still another step-up in the rate of inflation that stepped up undesirably and unhealthily in the second half of last year.

It is no surprise that I am in favor of the President's surcharge proposal. It is no surprise to you, I am sure, that I think that fiscal restraint is preferable to monetary restraint. If we don't get fiscal restraint, we surely will get some monetary restraints. That will help to hold down prices and help to hold the economy in check, but it has some very unhappy side effects. It works very unsteadily. I don't think anyone would recommend a tax package which had the same effect on distribution and resource allocation that tight money would have. It would be easy to manufacture such a tax package—it might have a selective 20-percent excise tax on new homes, a selective tax on small business added to the income tax, and a Federal tax on State and local capital projects. I don't think that would be a very salable tax package on Capitol Hill.

Tight money works selectively, in a few areas. They are not holy areas and should not be totally exempt from restraint in a period when everything seems to be adding up to too much. But there is good reason why they shouldn't be the sole candidates for restraint, and with tight money they would be.

Whether one uses fiscal or monetary restraint, cooling off demand is essential. But it is not the sole requirement for decelerating price increases in 1968.

We emphasize that the President's program is three pronged. In addition to stabilizing the growth of demand, voluntary cooperation is another prong of the attack; and the third is the attack on structural impediments to efficiency and hence to cost reduction.

### *Voluntary Restraint Is Needed*

The appeal for voluntary restraint in 1968 is strong. The President attempts to be even-handed; he asks for the utmost restraint from both business and labor. Neither the Council nor the President in his *Report* offers any quantitative guidelines. The closest we come is in the Council's *Report*. There, we do point out that a deceleration of prices during the course of 1968 certainly would require both that new union wage settlements be below the 5.5-percent average of 1967 and that businessmen make no price decisions that would widen their profit margins above the 1967 level.

We recognize that the burden can't be placed on a profit squeeze in 1968. Corporate profits declined in 1967—although modestly and from exceedingly high levels in 1966. Meanwhile, household incomes fared well. Per capita real disposable income of households registered a good gain last year; it was up 3 percent, corrected for price increases. And labor compensation, which was up 8 percent, dominated the gains in household incomes.

It is true that the average factory worker who has held the same job for the past 2 years has not gained any real income. That demonstrates what inflation can do and also helps to demonstrate why inflation is unpopular. Still, the gains have gone to people who earn wages and salaries, and the biggest gains, so far as we can determine statistically, have come at the lowest end of the wage scale. Many of them have taken the form of upgrading. Many people are not holding the same job that they held 2 years ago, but are holding a better, regular, and better paying job. The minimum wage increase has provided substantial advances for many workers at the lowest end of the wage scale.

Effective restraint and voluntary cooperation can be asked for only in areas where people have market power. That limits them to a number of industries where firms are big enough to have major influence on their prices—where they can decide to raise them, lower them, or hold them constant without losing their markets completely; and it limits restraint and cooperation to areas where there is collective bargaining by unions that have a substantial influence on their wage demands. These are the areas where the discretion to act in the national interest is in the hands of a relatively small number of people, and those are the people, in both

business and labor, we have to appeal to for restraint. They have the power; they have the responsibility; and they have the long-term self-interest to assure that prosperity is maintained.

### *Committee Deals With Inflationary Bias*

In addition to the fiscal program and voluntary restraint, the third prong is the President's establishment of a Cabinet Committee on Price Stability. It will deal with a great many aspects of the ways in which inflationary bias is built into our economy, prices are more easily raised than lowered, and potential cost reductions are not always taking place or are not always fully translated into lower prices. Every type of inefficiency everywhere in the economy, every impediment to cost-reducing technical change, every shelter against effective price competition that prevents cost reduction from being translated into price reduction—every one of these adds to the inflationary bias in the economy and makes it harder to keep prosperity going without succumbing to excessive inflationary dangers.

On the other side of the coin, everything that the Government or the private sector can do to promote the better working of job markets, better incentives for active competition among industries, and more rapid response to the incentives for cost reduction and technological improvement is a victory in the battle to reconcile full employment and price stability. Those of you who have direct responsibilities for manpower programs are active campaigners in this battle. At our present degree of utilization of labor, the biggest rewards in making possible reductions in unemployment—the biggest rewards in permitting greater employment without excessive pressures on wages and without bottlenecks—must take the form of improved training, better placement, better information, and greater mobility, all the things that the manpower program is striving for.

Improvements in employment must result from improvements in the structure of the job markets rather than from changes in fiscal and monetary policy.

There are a great many industries which pose questions about efficiency. In construction, there are problems on the labor and the

management side, involving building codes and zoning. There are problems in medical services, and acute supply shortages in certain areas. There are difficulties in some of our repair and maintenance services which, surprisingly, contributed about one-tenth of the increase in the Consumer Price Index last year. In some instances our regulated industries—electric power, natural gas, and communications—do not seem to be passing on the full benefits of productivity gains in cost reductions to the consumer. There are questions about why the regulatory process isn't completely effective in making those reductions possible.

There are many areas where the Government may be unwittingly contributing to barriers to competition, to inflationary bias, and to arrangements that tend to build in cost increases and higher prices.

No Government official or agency ever deliberately worked to create inflation. Most Government actions aren't taken in order to influence the price level directly, and yet they do—certainly, cumulatively, they have a significant influence on prices. That includes routine procurement decisions. How the Defense Department buys its uniforms and lumber can, as we saw in 1966, have a significant influence on the market prices of these commodities.

Given the importance of restoring price stability and reconciling it with full prosperity, every Government decisionmaker should have a sign on his desk that says, "Remember the price level. Remember that when you make a decision, in many cases, in many ways, it will influence prices; it will either help or hinder the battle to restore price stability and combine it with prosperity."

The Cabinet Committee is just being launched, and I am in no position to prejudge its actions. I remind you that it is not meant to deal with specific price and wage problems. We felt we didn't need a new mechanism in the Government for that. What we needed was a mechanism to look at the structural problems, to recognize the many aspects and the long-term nature of the problem of trying to inject cost reduction and price reduction, rather than inflationary bias, into the system. The Committee will share the responsibility of reminding labor and management in general terms of the national interest. The question of reconciling price stability with full employment isn't just the Government's problem; it is everybody's problem, and everybody has to accept it.

We are being realists, we think, about the price record in 1968. We don't expect miracles. We can't stop inflation overnight. We are going to have an unsatisfactory price performance almost regardless of what happens this year. We are less concerned about the exact numerical level of the Consumer Price Index or the GNP deflator for 1968 than about whether we have turned the corner and are beginning to move toward a diminishing rate of increase during the course of this year. If we can do this, I think we will set the stage for further progress in 1969 and 1970.

In a wage-price spiral disturbances feed on themselves and get bigger and bigger through time. But they can work the other way. If you can begin to diminish them, if each round of consumer price increases is smaller than the one before, then each round of wage increases is going to be smaller too. And if each round of wage increases is smaller, it will have a smaller impact in raising prices. We will then have a continued adaptation of the economy to full employment conditions. Job markets will work more and more effectively, and some of the differentials which have developed in recent years will do their job of reallocating labor to the right places and helping to upgrade it.

We hope we will have continued progress in manpower training to help smooth the path. And we hope we will have the fiscal program, the voluntary cooperation, and the work for structural improvement to speed us back toward price stability while we stay on the road toward full employment and economic growth.

# DISCUSSION PERIOD

SECRETARY RUTTENBERG: Thank you very much, Dr. Okun.

I think that was a very excellent review of today's economic situation and the prospects for the coming year, and a very careful and good analysis of the economic proposals that have been advanced.

I wonder who wants to start us off with the first question.

FROM THE FLOOR: A recent article tries to show that the ability to adjust prices depends upon the kind of market facing business. I wonder if you can relate this factor to what we call the structure of inflation. It seems to me that mergers must be having some impact on the ability to raise prices. Yet I hear no more talk of Government antitrust actions. Is it any accident, for example, that in 1937 and 1957 when we did invigorate antitrust, prices turned down? Do we need a new antitrust bill?

DR. OKUN: Antitrust policy is still very much alive, and we have an active Assistant Attorney General, Don Turner, who is working hard at it.

I don't think one can or should regard antitrust policy as a panacea for inflationary problems Most of the recent waves of mergers which you have referred to are conglomerate in character. There are many reasons for concern in the public interest, but these mergers are not the kind that give firms direct increases in market power and basically add to their ability to raise prices or reduce the elasticity of their demands.

An extreme way of dealing with the whole problem would be to eliminate market power wherever it shows up. That would involve a wholesale fragmentation of our institutional structure, both labor and management. We have an economy with lots of competition and many areas of market power. There are benefits, as well as costs, from having large-scale institutions on both the labor and the product side of the markets. We have made some social decisions about where we should live with market power and where we find

it undesirable. We don't want a wholesale fragmentation of the institutional structure. We can't have an atomistic economy of little firms and tiny unions with no collective bargaining. I apply the concept of fragmentation equally to both sides of the market because it is unrealistic to think the Government could launch a massive attack on the market power of one side and not of the other. We have to learn to live with a certain degree of bigness. Those in both business and labor who have market power entrusted to them by social decision have to learn to fulfill that trust and show that they will use it faithfully in their own enlightened self-interest and in the national interest.,

FROM THE FLOOR: How do you reconcile your opposition to direct wage and price controls with the steps being taken to deal with our balance of payments problems?

DR. OKUN: I would distinguish, in a balance of payments program, between tax devices and direct controls. The direct controls were limited to the direct investment program—to business investments abroad. Everywhere else we are operating either through a voluntary program, as in the case of financial institutions, or through more traditional disincentive techniques like taxes, in the case of securities and the proposal for tourists.

The direct investment program was a special case. You are dealing with a relatively small number of firms and a relatively small part of their total operations, although an important part for them. No one rushed into the mandatory controls on direct investment with any enthusiasm. This was an area where a great deal of our capital outflow has taken place, where we had a strong need to make a big dent in that total, and where the only way to get those savings was through a mandatory program. It is a program that can be administered by a relatively small number of people in the Commerce Department. It does not in any way compare, in scope, complexity, comprehensiveness, or restrictiveness, to what would be involved in any set of wage and price controls.

None of us welcome the fact that we had to go the mandatory route on the direct investment program, but its cost was much, much smaller than the cost of any domestic price and wage controlling would be.

FROM THE FLOOR: In past swings of the business cycle, changes in

inventories have been fairly significant. Recently, a combination of much better inventory control through automated information systems that let entrepreneurs know what kind of stocks they really have on hand almost at the moment, plus more sophistication on the part of business management as to the implications of swings in inventory, may have had some effect. To what extent do you feel this has contributed to the long expansion?

DR. OKUN: The way private firms are controlling their inventories is operating as a stabilizing factor. It is very hard to measure how much difference it makes. However, it isn't a guarantee of stability, as was demonstrated last year when we had a recordbreaking $18 billion drop in the rate of inventory investment from 1966 to the second quarter of 1967. That certainly indicated that, in the closing months of 1966, firms had let inventories accumulate much more rapidly than the true underlying conditions called for, that their responses weren't immediate, and that it took them easily 6 months to get back into balance. In fact, the inventory factor still looms as the chief short-run destabilizer of the economy. It was only because we were operating a very expansionary monetary policy by design and a very expansive fiscal policy by the necessity of defense that we were able to absorb such a large swing in inventories in the first half of 1967 without a recession or retreat in economic activity.

I think the evidence tells us that the business cycle still looms as a threat, that we are vulnerable to such fluctuations and need to have our guard up at all times.

FROM THE FLOOR: Dr. Okun, do you think that our training programs for the disadvantaged can, by providing a greater supply of needed trained manpower, help to curb inflation in the next few years?

DR. OKUN: I think they can have an important influence. There are distinct objectives that one might pursue in manpower training programs. However, the training programs that are ideal, perhaps, for remedying the plight of the disadvantaged may not be the ideal ones for curbing inflation, and I wouldn't want the anti-inflation test always to be the dominant one. Even though I emphasize the price level, we have important social objectives. Programs that do the most to help the hard-core unemployed and in that way do the most to remedy poverty are bound to have some effect in making

additions to our labor supply. They may not be exactly the same as training programs intended to make a maximum anti-inflationary contribution. For the latter you might want to look at certain bottleneck areas; you might want to train, say, for certain types of medical services or for upgrading. But these objectives, though distinct, are complementary, and both ought to be recognized. I trust they are.

FROM THE FLOOR: Aside from the inconvenience to labor and business and the administrative morass, which you mentioned as characteristic of wage and price controls, would you favor them over the surcharge if you had only the economic objective of price stability in mind?

DR. OKUN: The economic objective of price stability is not merely to assure that, when Arthur Ross publishes the CPI, this month shows no increase over last month. It also has something to do with the efficiency with which the economy operates.

You are asking me to overlook a lot when you say "apart from the morass of the administrative machinery and apart from the inconvenience to business and labor." Perhaps you should add "apart from the major inconvenience to the consumer of finding that certain products disappear from the shelves and that other products tend to suffer a deterioration in quality." The price tag is the same, but the product under the price tag gets just a little shoddier and a little worse over time under controls. I think the market does something for us. Price changes are an essential component of a free enterprise system such as we have, and we do need movements in prices and wages to serve as guides to attract production and labor into certain areas. In a subtle fashion, the price guides do significantly influence what we produce and how efficiently we produce it.

If we eliminated these fluctuations in relative prices with a set of wage and price controls, we would give up a great deal. The difference between World War II, and indeed between the Korean war, and the present situation is enormous. Basically, we are talking about a situation today in which 3 percent of our GNP is being devoted to an extraordinary defense effort. That is big in budgetary terms, but it is not a big part of the economy. We ought to be able to handle this effort without resort to the kind of controls that perhaps were necessary when we were devoting half of our output

war, as in the case of World War II, or when we very rapidly ran up a 70- or 80-percent increase in the defense share of our GNP, as in the case of Korea. During the Korean conflict the speculative forces were so great that controls were perhaps necessary and productive because they did curb speculation. Otherwise, they didn't stop anything. Once the expectations of rising prices were eliminated, the controls became unnecessary and ineffective, which was good. But that is a rare situation, and it is not the one we have today.

I think our economic objectives are being served by the market price system, and they would be impaired by putting the system in a straightjacket.

FROM THE FLOOR: In the light of what you just said, how can we rationalize fixed international exchange rates? We have been putting on more and more controls in an effort to maintain these rates. Fluctuating rates would have many of the same advantages that you suggest for fluctuating domestic price rates.

DR. OKUN. Basically, the international financial system has to meet the needs and preferences of the people who operate in it. The chief argument in favor of fixed exchange rates is that these people want fixed rates. They do not want to put up with uncertainties about what their transactions will yield them in terms of their own currency 6 months, a year, or 2 years in advance. They live with a lot of uncertainties, but they don't want that one. Maybe over time they can learn to live with some flexibility in exchange rates, but that time hasn't come yet.

I think that the more radical proposals to cut the link between the dollar and gold or other currencies and let the rate go where it may really risk a major financial catastrophe for the United States and the world. No one could possibly appraise the consequences of such an action—what it would mean for international monetary, economic, and, indeed, political cooperation. Anybody who sits back in a university and finds it attractive should come to Washington and sit next to the White House. If he asks himself, "Could I really recommend that the President take this action and trust to the rationality and efficiency with which people would react to it?" he would have a lot of second thoughts about it. I have had some second thoughts myself.

There are some real costs to the kind of fixity of exchange rates that we have today. But there are also some real costs in departing from it in a radical way. Some proposals ought to be considered over time—widening the band of fluctuation around the fixed parity, and possibly establishing so-called crawling pegs, which would permit a very gradual flexibility of exchange rates within limits in any period of time. These have a lot to recommend them as long-run possibilities.

FROM THE FLOOR: What level of inflation do you think the American public is willing to accept? What would you say the unemployment rate would be?

DR. OKUN: I am not sure what the answer is. I think our proposal today is essentially to try to maintain the 1967, 3.75-percent unemployment rate, and see whether this can be consistent with a gradual diminution of the rate of price increase. I have no illusion that we can repeat the price performance of 1961–1965 in an economy such as we have now. We have to be ready to accept, and I would trust we would be willing to accept, something more than the zero rate of wholesale price increase and the 1.25-percent rate of consumer price increase that we had during that period. I would hope that, over the longer run, we could bring down the rate of inflation that goes with any unemployment rate, shift that Phillips curve downward, and maybe permit both lower rates of price increase and lower unemployment rates.

FROM THE FLOOR: Dr. Okun, may I get your response to an argument made by Kenneth Galbraith in his latest book? He takes a group of monopolistic industries, using a strict criterion of 80 percent control by five or fewer firms, and says they really are not hurt by price controls, nor would the unions that have organized a large chunk of that labor force be hurt by wage controls. I would like to have your reaction to taking this part of our economy, about 12 industries, out of the market mechanisms and imposing controls.

DR. OKUN: I really don't see how you could maintain equity between big unions and small unions or big business and small business by doing this. I don't know how you would draw the line. Obviously, we need price controls in the case of public utilities.

FROM THE FLOOR: Mr. Galbraith draws the line by saying the market does not control steel.

DR. OKUN: That is certainly true, and yet those prices do move and market forces do have an influence. It isn't an automatic affair. That is what we mean when we speak of discretionary power. Although the market dictates are followed imperfectly in such cases, I don't think they can be implemented more effectively by someone sitting in Washington than by someone sitting in Pittsburgh. There is enough competition to justify the decision that these industries are going to remain private and essentially unregulated. You face a choice of where you draw the line on public utilities, and I think we have drawn it in the right place.

FROM THE FLOOR: Do you have a model that indicates what will happen if there is no tax surcharge?

DR. OKUN: We have a couple of them. We have a model back in our shop that we call the Irresponsible Fed Model. This shows what happens if there is no tax increase and the Federal Reserve supplies all the credit that would be necessary to stabilize interest rates at present levels. Then you get a lot of inflation.

Then we have the Tough Fed Model, which has a lot of restraint coming out of a collapse in homebuilding. Its price performance isn't dramatically different from that of the tax increase model, but it has a very uneven pattern of demand. And it goes along with a somewhat poorer trade performance, partly because homebuilding isn't a very big user of imported commodities. Hence when you hold down the homebuilding sector, you aren't doing much to curb imports.

This multiplicity of models points to the fact that it is impossible to forecast what the reaction of financial markets during the course of this year will be and what the reaction of the Federal Reserve will be to those reactions in the event that pressures begin to build up. The absence of fiscal restraint would lead to continuing pressures on credit and higher interest rates. In the event of further increases in rates, the thrift institutions will not be able to meet the demands of residential construction and other mortgage-financed areas for the credit they need in 1968.

FROM THE FLOOR: If your only purpose in proposing this tax increase were to produce more revenue in order to cut down the budget deficit, then you probably would follow the advice of your predecessors who, in order to get more tax revenues, cut taxes.

DR. OKUN: No, I don't think so. There is a basic difference between the situation in 1963 and 1964, when we were recommending a tax cut and felt that it might actually add to revenues, and what it is today. For one thing, resources were available then to meet the added demands that came from the tax reduction. They are not available today. The bulk of the effects of a tax reduction would be to raise prices rather than real income.

When you raise prices, you raise somebody's money income, and you might increase those money incomes enough so that you actually could get more revenue out of a tax cut. But you wouldn't get it in real terms.

You have to remember that the Federal Government ultimately is a buyer of goods and services, and the prices it pays would be influenced by the rate of price increase of the economy as a whole. Thus your revenues would be held down by the lack of opportunities for expanded production, and you would also wind up with Federal Government expenditures reflecting the added impetus of inflation.

During World War II and the Korean war we increased revenues by raising taxes. I think we would increase revenues again, although I wouldn't put the emphasis there. I am told that we would have had a more salable package to the American public and the American Congress if we had emphasized the pure revenue aspect of a tax increase: We have to pay for the war; we have to eliminate, or at least shrink, the deficit. Some of my conservative friends blame the new economics for destroying the myth of a balanced budget without putting up a new myth in its place. They say that is why we are having trouble now. In earlier times Congress would have felt it was immoral to run a $20 billion budgetary deficit, and would have plunged into a tax increase on purely moral grounds.

FROM THE FLOOR: A Congressman has said that the surtax is objectionable and that tax reforms are a more equitable way to combat inflation. Will you comment on this?

DR. OKUN: From a strictly demand management point of view, how you raise revenue matters only insofar as you take it from people who would otherwise spend their income as opposed to saving it. You can think of revenue-raising tax reforms that would have a significant moderating effect on demand. I say you can think of

them; but you can't pass them. The record is pretty clear: In 1963, the Administration fought for a year to combine a tax reduction with a tax reform measure. That demonstrated just how difficult it is to get any kind of consensus on plugging loopholes. One man's loophole is another man's salvation, and there is no real consensus in the Congress or, I dare say, among the American public on what are appropriate incentives in the tax system and what are undesirable and egregious loopholes. We shouldn't give up the battle for tax reform; but we should recognize that it is a long, hard fight.

The notion of a tax increase that is proportional to existing tax liabilities is equitable. It maintains the progressiveness we now have in the tax system, indeed, increasing it to the degree that the very lowest income groups would be exempt from taxation under the President's proposed surcharge. It is hard to say that this is something which in any sense makes the tax system worse.

Some people see the present situation as an opportunity to make the tax system better. If I thought this were feasible, I would be very interested in it. I just don't believe for a moment that a tax reform bill could be passed which would have a significant, substantial, and prompt enough effect really to make a difference in our problems for 1968.

FROM THE FLOOR: The President's program points to the need for an improvement in trade. There seem to be two schools of thought on how to achieve this. One advocates trade measures such as export rebates or import surcharges, which run the danger of retaliation. The other wants to ask our trading partners, particularly the creditor nations, to expand their economies. Which of these alternatives do you prefer? If you advocate the second, what methods would you use to achieve it?

DR. OKUN: There is a whole host of areas of diplomatic negotiation and consultation with our trading partners. One does concern their rate of domestic expansion, which you mention, but that is not the only area. Another concerns their use of nontariff barriers, border taxes, and the like as a means of influencing their trade surpluses, as in the case of the recent German action to impose a border tax. This is perfectly legal under the General Agreement on Tariffs and Trade, no question about that. But it is highly inappropriate and contrary to any concept of an orderly world adjustment

process for the world's leading surplus country in effect to devalue its currency at a time when it has a bigger trade surplus than it knows what to do with.

We have a legitimate basis for raising that kind of issue and for asking what steps we might take to rectify it. That is the line that our diplomatic negotiations are pursuing. We are urging that expansionary objectives be given their proper place in the conduct of monetary and fiscal policies; asking for a review of trade policies, particularly nontariff barriers and the use of border taxes; and asking also for a further review of offsets to our military expenditures abroad, which are not necessarily directly on the trade account, but which nevertheless saddle us with substantial foreign exchange costs. We are willing to stand the cost in terms of resources, because we are rich in resources. At the moment, however, we are not rich in terms of international liquidity, and it seems reasonable to expect those countries which are rich in international liquidity to stand the foreign exchange costs of the joint defense effort to a greater extent.

All our policy statements, right from the President's New Year's message, make it clear that our preference is for the surplus countries to do the moving on this, rather than for us to take steps on our own. Whether we will need to take action and use legislative methods remains to be seen in the outcome of the negotiations. But negotiations are the preferred and the first route.

FROM THE FLOOR: You spoke of having a lot of models in your office. Do you have one that shows the effect on the economy in 1968 if the war should end satisfactorily? Would there be appreciable savings? And what would be done with these savings? What would your recommendation be?

DR. OKUN: We have been doing quite a bit of work in which the Labor Department has been involved. Some of you here, I know, have been involved in the post-Vietnam exercise and know what illustrative defense demobilization scenarios might look like. We have tended to deal primarily with those which the Defense Department thinks it might pull down the fastest to deal with manpower and procurement problems in the event of peace. Obviously, peace is a differentiated product; it can come in large and small sizes, in

solid and fluid form. Thus, it is very hard to have a single blueprint that says, "This is what you do in the event of peace."

We do outline in the Council's *Report* the nature of the rapid demobilization we could conceive of, which represents something like a $15 billion decline in defense expenditures over a period of a year and a half. That would give a lot of room for some much more welcome fiscal measures. We could start talking about tax cuts instead of tax increases. We would like that better—although I have almost gotten use to the semantics. For a long time, whenever we wanted to say "tax increases," it always came out "tax cuts." I would probably have some reconversion problems on my vocabulary, but I would welcome that opportunity.

There obviously are very high priority civilian programs that are going far more slowly than we would like to see them go. The President would take the opportunity to speed these up to permit more progress on the Great Society, which is, of course, nearest and dearest to his heart.

There are also inevitable transition problems. One can't be sure of just how the private sector would respond to a peace opportunity. I think it would respond favorably. I am optimistic that we could make that conversion without any halt in overall economic growth, but that is a conjecture. We have never completely succeeded in avoiding a retreat for at least a brief period in a demobilization era, but this would be a less dramatic demobilization in terms of percentage of GNP or percentage of manpower release from the Armed Forces than was the case after World War II, or even after the Korean war.

FROM THE FLOOR: In view of the fact that certain procedures were considered undesirable— (question inaudible).

DR. OKUN: The question was: In view of the fact that we don't like an administrative morass, why did we choose the proposed travel tax rather than a limitation on the amount of money that one takes overseas?

I am not sure what is implied by a limitation on the amount of money one takes overseas. How do you set the amount? What do you do to somebody who takes out more than that amount? It seems to me that that kind of direct control is the most administratively unfeasible kind of action you can take.

FROM THE FLOOR: Other countries do this.

DR. OKUN: Other countries do lots of things we don't want to do and don't have to do. You are really banning travel in that case. We want to say, "Pay the man the money, and if you want to go, then go." Between these two options, the American public ought greatly to prefer the second. We want to tell every American, "You are doing the country a service by deferring nonessential travel overseas. We would appreciate it if you don't travel. If you do travel, we have a tax schedule which will be a disincentive to large-scale expenditures, but not an absolute prohibition or ban."

I think the difference between a disincentive and a prohibition is a very critical difference, perhaps one of the hallmarks that distinguishes a democratic from a totalitarian society.

FROM THE FLOOR: Isn't the proposal regressive in its present form?

DR. OKUN: No. It has an exemption; it has a graduated rate. It is, by any standard, a progressive and not a regressive tax.

FROM THE FLOOR: But the 15-percent rate is more regressive than the 30-percent.

DR. OKUN: No tax system can eliminate that problem. A 70-percent ceiling rate on the income tax may be less onerous to a very wealthy person than the 14-percent on the lowest bracket.

FROM THE FLOOR: Do you think you will save money on the tax measures involved?

DR. OKUN: The set of measures that are proposed are capable of saving $500 million. Again, this is a choice of unpleasant medicines. This seems to be the whole story of the Administration's program for 1968. There is nothing one can really exult about on the tax, balance of payments, or anti-inflation side. These are insurance policies we are buying against things which we think could have worse consequences and risks that are far more serious. The risk of not taking action on the balance of payments is very serious under present circumstances.

FROM THE FLOOR: Are the Administration's estimates of savings as a result of controls on direct investment, as well as on travel, a net figure in the sense that you have taken account of losses we might sustain in our exports? For example, other nations might buy fewer airplanes from us as a result of cutbacks in travel.

DR. OKUN: We have tried to make allowance for such factors. I am not convinced that the claims about the direct investment program's impact on exports are fully valid. Obviously, to the extent that you cut down on plant and equipment expenditures abroad, you will cut down on the export of American equipment to American subsidiaries abroad, and that we have allowed for. But I think it is fair to say that, for some firms, facilities abroad are a substitute for shipments from the United States, and for other firms, they are a complement. I am never sure that the figures add up to a very decisive total in one direction or the other. Some firms, by producing some products abroad and having a big marketing organization, have managed to increase their exports of U.S.-produced merchandise. In that case, yes, to the extent that you curb the growth of their foreign activities, you curb the growth of their export sales through subsidiaries. But I can cite a number of examples of firms which have put up facilities abroad that are producing goods formerly sold abroad and shipped from the United States. To the extent that we have fewer of those facilities, we will have more and not fewer exports.

FROM THE FLOOR: Some years ago when we encouraged American investment abroad, one argument was that profits would gradually become a sizable offset to further investments abroad. Were the forecasts of the size of the profits wrong, or did the profits stay abroad? At present are there any incentives to repatriate profits?

DR. OKUN: As I recall, the only time when we had active Government programs to encourage direct investment abroad in developed countries was when we were interested in turning into a deficit country, when we wanted to help other countries to rebuild their reserve position. Times have changed, and it is quite reasonable that the policy has been reversed.

There were very optimistic forecasts—mostly private forecasts—about the potential reflow of investment income from direct investments made abroad. The fact is that some of the factors which you mentioned have created gaps between the prediction and reality. Profit rates have come down, particularly on European activities, in recent years, and much more of the profits have been reinvested in the firms abroad. If we have a goose that lays golden eggs, we are still using many of the golden eggs to hatch more geese.

I don't want to minimize the fact that we do have a very large inflow of investment income from abroad today, and that is a very important plus in our balance of payments. But the kind of program we have will still make it possible for American firms to increase their assets abroad very substantially. They will finance them to a greater extent out of borrowings; they will pay the interest costs, which are a lot less than the profit rates, and we will have a growth in American holdings abroad throughout, even under this program. There is no reason to believe that profits will decline. This program will affect the rate of growth in those profits, but it will not turn them down, as is sometimes implied. The fact is that American plant and equipment expenditures in Europe have doubled from 1964 to 1967. That is quite a rate of advance, a much bigger capital boom than we had at home.

SECRETARY RUTTENBERG: I wonder if, as chairman, I might ask you a question, Dr. Okun, and give you a chance to do a little speculative thinking, if you like?

You said at the outset that you didn't think we really had a full-employment economy now. Yet you laid great stress upon the need to develop a balance between stability on the one hand and full employment on the other. Faced with the problems we have today, what would you do to reduce the levels of unemployment further in order to come closer to a full-employment economy? Do you think there are manpower policies or other kinds of policies that we ought to be thinking about in the future that would enable us to attain a still lower level of unemployment than we have to date?

DR. OKUN: Our hopes rest on manpower policies, and certainly over the long run on educational programs. I am not sure what the new departures in this area may be. The experience that you are picking up cumulatively is essential. My best guess is that the only way to learn how to plan productive manpower programs is to perfect the instrument and perfect the skills. We are engaged in some pioneering efforts, and I hope we have learned to chart our course as we travel along.

I would never like to speculate on what a minimum attainable unemployment rate might be. We have to recognize that at least a small part of the unemployment that we experience is a luxury. It is part of the affluent society. Younger people just entering the la-

bor force, in particular, can afford to shop around, to quit a job before finding another one, to canvass the market, and to try a number of things before they settle down. I would guess that we will always have a fairly high teenage unemployment rate. For those who don't go on to college, there has to be some kind of a professional working-in period. The same practice is true of women, who make frequent moves into and out of the labor force. When they want to come back in again, they won't find a job waiting for them; they are going to be unemployed for a while

The real social problem that we face—and the one that still challenges us—is the continuing hard core of adult male unemployment. It is shrinking, however; in fact, as of December, our central-aged males 25 to 54 showed the lowest unemployment rate since World War II, including any Korean war month. But to increase the anti-inflationary potential of our unemployment and manpower programs, we are going to have to feel our way and look for bottleneck areas and places where we can help to make the supply of labor more responsive to the market's needs.

SECRETARY RUTTENBERG: I think we will take one last question, from someone who has not yet asked one.

FROM THE FLOOR: Dr. Okun, you mentioned the unexpected increase in the public savings rate. I wonder if you can forecast the effect, first, of a continuance of that rate, and second, of an increase in the rate upon price stability.

DR. OKUN: Essentially, the Administration's forecast for 1968 calls for continuance of that rate just a shade, but not significantly, below the rate of 1967. The amount of consumer spending increase that you get with a given increase in income is a lot different when the savings rate stays at 7 percent than when it is moving from 6 to 7 percent. So on essentially the same income gain, we are predicting a much larger increase in consumer spending in 1968 than we had in 1967 when the saving rate was going up. This means savings will stay high, but they won't take another jump, according to our forecast. If you can give me a guarantee that the consumer is going to up the saving rate another point or a point and a half over the next year, that would be enough insurance against inflation so that we could relax and stop trying to sell the tax increase to the Congress, the Labor Department, or anyone else. But I don't know how you

can make that forecast, how you can rely on that change. I don't think the evidence is pointing in the direction of a further increase in the saving rate from present high levels. Most of the hypotheses that you can advance to account for the present rate would suggest that it is likely to be more temporary than permanent—that, if anything, it will gradually drift back to a more normal 5.5- or 6-percent level rather than go from 7 to 8 or 9.

SECRETARY RUTTENBERG: Thank you for a very interesting and stimulating afternoon, Dr. Okun.

I recall that you spoke here 2 years ago only 2 hours after the *Economic Report* was issued at the White House. Today, within 1 hour after your swearing-in as Chairman, you are speaking. When you return next year, I am looking forward, as I am sure all of us are, to learning what important events will precede your appearance.

Thank you very much.

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